



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON
Monday, August 16, 2010
2:30 p.m.

The Investment Committee (IC) of the Arizona State Retirement System (ASRS) met at 3300 N. Central Avenue, 14th Floor Conference Room, Phoenix, Arizona 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:34 a.m., Arizona time.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Mr. Chris Harris, Vice-chair (arrived at 2:37 p.m.)
Mr. Larry Trachtenberg
Prof. Dennis Hoffman

Absent: None

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the June 14, 2010 and the July 6, 2010 Public IC Meetings

Motion: Mr. Larry Trachtenberg moved the minutes of the June 14, 2010 and the July 6, 2010 Public IC meetings be adopted as presented. Prof. Dennis Hoffman seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 1 excused, the motion was approved.

3. Presentation, Discussion, and Appropriate Action Regarding the Selection of a Benchmark for ASRS Commodity Investments and an Update on the Commodities Markets

Mr. Gary Dokes, Chief Investment Officer, introduced the topic and outlined the series of meetings the Public Markets Committee (PMC) held over the past several months to discuss and implement ASRS (SAA) strategic asset allocation to commodities. As part of that process, commodity managers were interviewed and the selection of Cargill and Gresham were made. The objective of today's agenda item, is to recommend the selection of the ASRS SAA commodities benchmark for IC and subsequent Board approval. New England Pension Consultants (NEPC) and Cargill presented information on commodity benchmarks and discussed development of the commodities markets.

Mr. Chris Harris arrived.

Mr. Edward O'Donnell III, Senior Consultant, NEPC, noted the ASRS has a 3% strategic asset allocation (SAA) target (or currently approximately \$750 million) to commodities. Four commodity indices were discussed by the PMC: S&P GSCI, DJ-UBS, Commodity Research Bureau (CRB), and Rogers International Commodity Index (RICI). Mr. O'Donnell discussed in

detail the composition, performance and pros/cons of each index. IC selected the DJ-UBS as the performance benchmark for the commodities given its diverse representation of commodity markets and its broad acceptance/use by institutional commodity investors.

NEPC then provided background regarding the inclusion of commodities in ASRS' SAA policy; commodity expected returns/correlations to other asset classes and addressed other strategic and tactical implementation inquiries from the IC.

Mr. Tom King, Commodities Trader, Cargill provided an update on the commodities market, their assessment of value within the markets, and developments in and impact of federal commodity legislative initiatives.

Prof. Hoffman commented that future inflation is a concern from a monetary standpoint and inquired if, besides the inflation-linked allocation, other parts of ASRS investment program are positioned consistent with a view on inflation. Mr. Dave Underwood stated that the ASRS have not historically targeted direct equity strategies that benefit from inflation but allows managers discretion to position their portfolios to add value vs their benchmarks.

Mr. Allan Martin, Partner, NEPC, noted commodities were recommended and included in ASRS SAA to diversify the portfolio and provide an inflation hedge. Debate ensued regarding the benefits of commodities as an inflation hedge and/or as an effective Total Fund diversifier.

Mr. Tom Connelly expressed some concern of whether he had sufficient information to conclude commodities will always provide great returns. Mr. Connelly asked NEPC to research articles addressing this topic.

Motion: Mr. Chris Harris moved, as noted in the attached Exhibit 1, to approve the recommendation from the Public Markets Committee (PMC) to the Investment Committee (IC) to recommend to the full Board the use of the DJ-UBS Commodity Index as the benchmark for ASRS commodity investments. Mr. Larry Trachtenberg seconded the motion.

By a vote of 4 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved.

4. Presentation, Discussion, and Appropriate Action Regarding the Investment Management Division's (IMD) House Views

Mr. Gary Dokes, Chief Investment Officer, introduced the topic and provided the IC with a brief overview of the Investment Management Division's House Views. Mr. Dave Underwood, Equity Portfolio Manager, discussed capital equity markets and answered IC inquires regarding global money flow of funds.

5. Presentation, Discussion, and Appropriate Action Regarding Director's Asset Class Committee Update

Mr. Dokes provided the IC with a brief update regarding recent activities with the ASRS Private Equity Committee (PEC), Real Estate Committee (REC), Opportunistic Investment Committee (OIC) and Public Equity/Fixed Income Markets Committee (PMC).

6. Future Agenda Items

Mr. Dokes said he plans to address over the next few IC meetings several topics such as risk parity, hedge funds, portfolio rebalancing and others that the IC has requested. Mr. Dokes noted

that David Dasari, IMD's quantitative research and investment strategist who recently departed from the ASRS, was the lead project manager on these agenda item initiatives. A search has commenced to expeditiously identify and hire a replacement to assist the CIO on these projects. In addition, interviews for the OPI (Opportunistic Private Investment) Portfolio Manager are underway and anticipated to be completed over the next couple of weeks.

Mr. Connelly asked that key points of these future discussions be memorialized in document for future new trustees' reference.

7. Call to the Public

No members of the public requested to speak; the meeting adjourned at 5:14 p.m.

Respectfully submitted,

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Lisa Hanneman, Secretary	Gary R. Dokes, Chief Investment Officer
Date	Date